

Course of action

Finance



Assignment: Mandatory audit partner rotation (MAPR) Mandatory audit partner rotation objective is combating of perceived risk that may be brought about by long partner tenure which adversely affects the independence of the auditor because of cozy comfortable auditor-client relationships as well as the need to preserve client engagements. As the old adage goes, familiarity breeds contempt; thus, MAPR aims at reducing ‘ the familiarity threat’ resulting due to extended audit partner tenure. It is generally accepted that new auditors are inclined more to being independent as well as critical of public owned entities than the present auditors. MAPR enhances ‘ independence in fact’ since limited interaction with any client reduces not only the pressure but also the monetary as well as other inducements, for auditing partners to sacrifice their reputation and independence so as to ‘ remain silent’. As a consequence, auditing partners might be enthusiastic to question management on financial reporting and creative accounting issues. Secondly, long audit partner tenure means creation of a comfortable relationship between auditing partner and client, which adversely affects a partner’s show of independence. Thus such improvements as those can be brought by MAPR. The other reason why MAPR is best course of action is on the basis of on introduction of new/fresh eyes. Thus MAPR avoids ‘ staleness’ emanating from repetitive previous engagements and thus will enhance quality and integrity of audit, since rotation permits the much needed ‘ fresh eyes’ to evaluate the firm’s financial statements as well as accounting policies/practices (Ottaway, 2013).

Evidence-the US general accounting office (GAO), current data on ‘ restatement rates’ linking to ‘ error or fraud’ in previous financial statements subsequent to the closure of Arthur Anderson in 2002 that demanded

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compulsory auditor rotation for more than 1200 firms. Thus the data indicates a marked rise in restatement rates for ‘ error and fraud’ after auditor rotation. It is evident therefore, that from this research GAO provided a possibly persuasive research demonstrating that “ fresh eyes” actually do expose fraud and mistakes under a MAPR –comparable situation. This is apparent therefore, that MAPR promotes conservative and diligence decision making by partners as they will be alert, specifically at the end of their term, knowing a new auditor will be keenly inspecting their work with a pair of ‘ fresh eyes’ (Ottaway, 2013).

References

Harris, K., Whisenant, S. (2012). Mandatory Audit Rotation: An International Investigation. Boston: The University of Boston.

Joanne, O. (2013). Improving Auditor Independence In Australia: Is Mandatory Audit Firm Rotation The Best Option? Melbourne : Melbourne Law School.